

Testimony of Deputy Secretary of Defense John Hamre before the Senate Armed
Services Committee, February 28, 2000

Mr.Chairman, Members of the Committee, good morning. It is a pleasure and an honor for me to be here today to discuss with you the pressing issues of the globalization of the international economy, the transformation of the security environment and the challenges and opportunities they present for the Department of Defense and the national security of the United States. I believe that we can meet these challenges and take advantage of these opportunities, but it will require a willingness to be more flexible in our approaches in order to seize the advantages the new economy and the new security environment present.

Mr. Chairman, since the Berlin Wall was dismantled, a new world has emerged from the ashes of Communism's domination of Eastern Europe. We no longer face a monolithic military threat with masses of tanks and aircraft poised to invade Western Europe. Instead, we find asymmetric threats that are technologically leveraged. This multiplicity of threats includes state sponsored and transnational terrorism, weapons of mass destruction, international crime, drugs, international arms trafficking, and international environmental damage.

From a military perspective, we in the Department of Defense see a change in technology focus. Today, we purchase systems of systems, with the interconnections between the weapons systems being as important as the individual systems themselves. As a result, our approaches to buying and controlling the important technologies permitting these interconnections must be different.

The Balkans conflicts have pointed out that, unfortunately, the long-standing U.S. quest for interoperability with our allies has yet to succeed. As you know, interoperability is not a new issue in NATO or in our other alliances. There have been many standardization and interoperability initiatives over the decades. But while interoperability is not a new issue, there is a new urgency:

NATO is no longer just deterring; it is doing. NATO spent four decades preparing for the possibility of conducting operations. For the past four years, NATO has spent every single day conducting contingency operations, covering the spectrum from peacekeeping to high intensity combat. The gap in military capabilities between the United States and the Allies is affecting our ability to operate together across the entire spectrum of operations.

Of course, our NATO partners contributed significantly to the military capabilities employed in Operation Allied Force and that the operation would not have been possible without the use of our Allies' military infrastructure, including military bases, airfields, and airspace. However, we cannot ignore the disparities in capabilities highlighted by the operation. The gaps that we confronted, especially in the areas of

precision strike, mobility and command, control, and communications did impede our ability to operate at optimal effectiveness with out allies.

These problems were not news to the United States or to the Alliance. Nearly two years before NATO was involved in Kosovo, Secretary Cohen and General Shelton became quite focused on the problem of “outpacing the allies”. In May and June of 1998, they went to their NATO counterparts with an analysis of the problem and ideas for addressing it.

The response from some was that the United States was simply pushing allied governments to buy American. We explained this was not the case. Interoperability does not require identical equipment. But it does require compatible equipment, as well as compatible standards and protocols, and proper training.

The response from most was to agree that there was a troubling and growing gap in capabilities that will seriously affect our ability to operate as an effective alliance in the long term. A few allies then suggested that the United States should slow down to help close the gap. Our answer was clear: No.

Since we are not going to slow down; our allies must speed up. The Alliance response to this challenge was the Defense Capabilities Initiative (DCI), which NATO’s Heads of State formally endorsed at the Washington Summit in April of last year. The Defense Capabilities Initiative will enhance allied military capabilities and interoperability in five key areas: deployability and mobility, sustainability and logistics, C2 and information systems, effective engagement, and survivability of forces and infrastructure. Or, more simply put, the DCI is an attempt to improve the ability of the Alliance, as a whole, to move, eat, talk, shoot and breathe.

This will require that the Allies spend more and spend more wisely. We cannot continue to allow Alliance capabilities and interoperability to erode because nations fail to spend the minimum investments required. The United States has embarked on the largest sustained increase in defense spending in some 15 years; other Allies can, and must, follow suit. Until defense budgets increase across Europe, however, nations must realize the full potential of the resources they already spend.

Ever since the Packard Commission Report, this Committee has led efforts to encourage the acquisition of commercial items and the use of commercial practices by eliminating government-unique barriers. The distinction between the civil and military sectors is increasingly blurred. The United States, as well as our friends and potential foes, rely increasingly on commercially available technologies to develop or enhance military capabilities.. At the same time, the international marketplace in defense goods is becoming global, while the market itself is shrinking due to shrinking defense budgets. Private sector defense and commercial entities are taking advantage of these trends and have streamlined their ways of doing business. National borders are increasingly irrelevant in how businesses are organized and staffed. Yet, according to a recent R&D

Magazine Survey, federally financed industrial R&D has declined in the past two years while commercial R&D during the same period has risen significantly, led by the software industry sector's 14.3% gain in 2000.

Countries in Europe have recognized these trends and are moving to create European-only arrangements to address them. These governmental arrangements, plus the disturbing trend towards "Fortress Europe" amidst global consolidation, present equally disturbing questions about the effect these trends will have on interoperability with out allies for war-fighting purposes.

Increased multinational manufacturing processes and global information flow present enticing opportunities, but they also present increased security risks. The Administration understands the concerns expressed through last year's debate over security in space technology exports. We know that security must be increased on all of the technologies that we wish to control just as we are also aware that our ability to maintain our leadership in this industry relies in large part on the industry's ability to export. Yet as technology sharing becomes more difficult, interoperability with allies required for coalition warfare is increasingly at risk.

The United States must remain engaged in this changing world. Secretary Albright has said that the United States is the indispensable nation. President Clinton has made clear that he believes that we must lead abroad if we are to be secure at home. Indeed, peace for the last century has required U.S. involvement, either in winning the war or imposing the peace. We believe that U.S. aims of ensuring peace for the next century require U.S. leadership and engagement. The United States must remain engaged at a political level but also at an economic level, an engagement that connects our citizenry to other countries in a mutual pursuit of a better good.

One path to engagement is to increase linkages between the United States and other countries' industrial bases. DoD believes that U.S. national security will be strengthened by cooperation with allies having strong industrial bases. In fact, creation of opposing political or industrial blocs will be harmful to interoperability and thus to the U.S. national security interests. One facet of linked civil-military industrial bases is that our defense suppliers' markets are increasingly international. In an interconnected world where demand is shrinking, international markets provide a way for defense suppliers to maintain a large enough customer base to stay healthy and to continue to serve DoD's needs.

The bottom line from a security perspective, however, is that we must find a way to foster these economically necessary and desirable linkages without compromising the security of classified information and without losing control of important technologies.

The foregoing represent broad brush and macro-economic reasons for DoD to change its approach to doing business in an increasingly interconnected world. There are additional reasons at a more practical implementation level. I believe that U.S. government processes for managing defense and industrial involvement with other

countries are increasingly dated and do not serve us effectively. The United States controls exports of munitions goods in the interests of foreign policy and national security – aims which DoD strongly supports. Yet our current processes can hinder the laudable goals of ensuring that U.S. international relationships effectively serve these foreign policy and national security goals.

The Department of Defense believes that U.S. engagement in the world mandates increased links with other countries industrial bases. We, however, find it ever more difficult to convince other nations that we are serious in our efforts to improve defense capabilities in NATO when our allies are questioning the reliability of the U.S. supplier base, a base that we in DoD believe is unequalled in the world. The Department is convinced that an important component in our efforts to achieve interoperability with our allies is modernizing our export control procedures.

U.S. disclosure, industrial base and industrial security policies also slow and complicate effective U.S. participation in international activities. In many instances, it is possible that these policies, currently in the most part a “one-size fits all”, could be modified to fit the appropriate situation. DoD (and United States) security and technology control resources are finite. We believe that they are not currently deployed to their best advantage to protect critical security interests. In order to redeploy them, however, we must make judgments about areas of greatest risk and areas where we believe risk is lower and can be met with different measures.

As this Committee has done in its previous efforts aimed at reforming defense acquisition by eliminating government unique barriers to commercial practices, we believe this Committee has an additional opportunity for embracing needed reform to our security policies. DOD believes that a viable approach to allocating our security resources to areas of lower risk is for the United States to actively foster closer industrial linkages with countries with which the United States shares five pillars of cooperation: congruent and reciprocal industrial security policies and procedures; congruent and reciprocal export control process; excellent cooperative relationships in law enforcement; close cooperation in intelligence sharing on matters of counterintelligence, economic espionage, and industrial security and export control violations; and a willingness to enter into binding agreements establishing reciprocal access to each other’s markets. Regulation of defense transactions with such countries could be streamlined and security resources freed to concentrate on greater security risks elsewhere.

We believe that DoD together with the Department of State should take the lead to identify candidates for closer defense industrial linkages to streamline cooperation in support of coalition operations. Once countries are identified as potential five pillars partners, discussions with each country should address reciprocal approaches to the “Five Pillars of Compatibility and Confidence: Export Controls Commonality and Reciprocity; Industrial Security Commonality and Reciprocity; Intelligence Cooperation; Law Enforcement Cooperation; and Guaranteed Reciprocity of Access to Defense Markets.

As I'm sure you are aware, Secretary Cohen on February 5, 2000 signed a Declaration of Principles with his United Kingdom counterpart, Secretary of State for Defence Geoffrey Hoon. Although this is a non-binding understanding between the DOD and the UK MOD, we believe the Declaration of Principles will improve the arrangements for defense equipment cooperation and trade. As such, it responds to concerns that have been expressed by both Governments and industry on both sides of the Atlantic. It also complements the recently launched Defense Science Board study of the health of the defense industry.

The Declaration covers such key areas as harmonization of military requirements, security of supply, export procedures, security, foreign ownership and corporate governance and research. One of the most important principles for the United States is that U.S. industry doing business in the United Kingdom should be treated no less favorably than U.K. industry doing business in the United States.

The Declaration is a direct and important outgrowth of DoD's initiative to enhance defense and industrial security cooperation. It is the first step in an ongoing process to tighten already strong defense links as well as take steps that will increase the ability and opportunity of our industries to work more closely together in areas important to national defense.

With other potential coalition partners, DoD should continue dialogue and cooperation to maximize technological interoperability in an effort to elevate their standards of security and control to standards meeting the five pillars I described above. In this way, we can hope to use closer defense cooperation as an incentive to raise international standards for these important areas.

DoD should, of course, continue to pursue our central national security interests: national military strategy, coalition operations and improved technology security. And DoD should also address improved approaches to all countries in export control processes, disclosure processes, defense industrial base and FMS procedural reforms.

There is a time urgency to the actions I am describing to you today. Companies, both U.S. and foreign, are actively considering transactions and seeking guidance from us about potential international industrial linkages. There is an overabundance of political and diplomatic issues involved in all of these matters. I believe that both U.S. inter-agency and international government-to-government actions are required.

Accordingly, I would like now to describe to you what the Department of Defense has done and plans to do to meet the challenges that this new "globalized" environment poses.

To improve our process the DoD, utilizing the recently established Change Management Center, has begun a focused rapid improvement effort to accelerate needed reforms in this area. Our approach is guided by the need to consider procedures and

approaches to common problems at the Military Department level, at the level of the Office of the Secretary of Defense and at the interagency level.

Currently, each Service has its own, unique organizational structure and processes for export license review. There is a lack of congruity that is confusing to outsiders in industry—particularly those working with all three Services--- and also to those within OSD. We have determined that a great deal of the inefficiency within DoD can be attributed to our own internal export control procedures.

In order to develop a common philosophy of process for executing our export control responsibilities and improve efficiency throughout the department, I have commissioned an “Export Control Process Rapid Improvement Team”. This team is chartered it to reengineer our current system of export controls to arrive at a common process for all Services and relevant components. The team will also examine more efficient and effective inter-agency coordination as part of the overall modernization of the US foreign transfer process. Phase I of the team’s efforts took place on September 27-29 and concentrated on the Military Services developing a common philosophy of process. The session, led by the Army with professional facilitation, focused on:

- Comparing current organization, staffing and practices employed by each Service to process licenses;
- Testing opportunities to improve process cycle times through standardization of organization, staffing and procedures;
- Identification of barriers to improving Services’ performance and proposing specific recommendations for action, both “act-now” by services and recommendations for other stakeholders.

Following a review of the Phase I results by a senior review team, consisting of the Under Secretaries of the Military Departments, the Under Secretaries of Defense for Policy and Acquisition, Technology and Logistics, and myself, the Military Departments will make further commitments to reengineer and realign, as necessary, to achieve the recommendations toward a common philosophy of process. Phase II of the team’s efforts will then address aligning the Military Services and OSD in making the transition to a new model. DoD-wide Implementation Plans will be developed, including near term performance results. Finally, the rapid improvement effort to accelerate change will culminate with a Phase III effort in which DoD and other USG agencies involved in the export control process will attempt to address further refinement and efficiency to the export control process.

At the DoD-level, we are already taking action to better focus resources on transactions of special interest or importance. We are refining the types of cases that the Defense Threat Reduction Agency (DTRA) refers to the Military Departments for development of recommended positions. Based on this experience, we expect to further refine the types of cases State Department refers to DOD at all. For example, DoD currently only sees about 30 percent of the license applications submitted to State by exporters. We do not review things that fall narrowly and exclusively under foreign

policy concerns (e.g., small arms). However, refining this list to address only those cases that involve significant national security equities is an ongoing process and we will be managing it aggressively.

Last October, I approved an entirely new approach to DoD's export license process. This involves three areas:

- Establishing time limits and discipline for license reviews in DoD;
- Reengineering the DoD license review process; and
- Investing in improved DoD and interagency automation systems.

I will briefly discuss each of these.

We have established a time clock on the review of export licenses within DoD. Prior to October, there was no such discipline. Now, there are time limits and escalation procedures. Reviewing organizations have a 25 days to provide their positions to the Defense Threat Reduction Agency who determines a final DoD recommendation to State. This can be extended by two weeks, but only in exceptional cases. There are clock-stopping procedures as well, primarily to accommodate the time involved for exporters to provide additional information if needed by DoD to adequately review a particular case.

DTRA has been given the authority to put out draft final DoD positions as soon as they are comfortable that our security interests have been adequately addressed. All reviewers have an opportunity to see these draft positions from DTRA and to escalate them to senior levels if they so choose. Reviewers have an ability to escalate all the way to the Secretary of Defense if they feel strongly enough. The escalation process is also disciplined by time limits and has defaults to decision with clearly identified decision authorities.

The second area of emphasis has been to reengineer the DoD license review process. As a matter of historical legacy, the current situation is that DTRA primarily relies on reviewing organizations like the Military Departments to formulate a DoD position in about 70 percent of the cases that come to DoD. In 30 percent of the cases, DTRA is primarily relying on in-house expertise. We want to reverse this so that reviewing organizations are focusing their attention on high-risk cases where they have particular expertise and value to add. Thus, we are increasing DTRA's license review resources by about 50 percent. We are also working on a new training program so that the people within DoD that are devoted to export controls have the skills they need to do their jobs. We believe that this will result in improved consistency and quality of reviews and assist us in screening out low-risk license applications that do not need time-consuming review.

The third major area we are tackling is to invest in better automation systems in support of license reviews, both in DoD and interagency. The current interagency export

license process has multiple case processing systems with limited connectivity, significant amounts of information transmitted by paper and courier, limited analytical tools to support license reviews, disparate and inconsistent data bases, and limited transparency for license applicants. DoD has a lot to do internally to improve our automation capabilities, but this cannot be done in a vacuum. So, we have worked very closely with our interagency colleagues at State and Commerce to identify a path to improve the overall automation process. DoD will provide the funding because much of the problem is with DoD internal systems. However, the other agencies and industry will benefit as we create standard interfaces and move toward an almost paperless system -- not just for applications, but for the volumes of technical data required for these reviews that now only moves as paper. We will be working closely with State and Commerce as well as industry on this entire effort.

Progress is already evident. Average license review times are down to 22 days from over 30 days in October. We expect that with the continued changes I have outlined for our process that we will move to less than 17 days later this year.

DoD has begun to develop guidelines on the use of existing ITAR exemptions available to DoD in order to expedite qualifying exports. This is an area long in need of common rules understood by all and coherent oversight. We anticipate these guidelines will be issued within the next 90 days.

Finally, DoD will establish an Ombudsman for exporters to have a direct avenue into the system.

DoD's goals in the Inter-Agency forum are to improve the interface and efficiency among government agencies in export license processing. We recognize the Secretary of State's primary responsibility to ensure that all defense trade and technology transfers serve our foreign policy and national security interests which are the preeminent focus. But with compatible trading partners--- specifically countries with whom we have compatible export control and industrial security policies, a history of cooperation in intelligence and law enforcement, and share reciprocal access to defense markets, DOD believes we should streamline the munitions licensing process for appropriate countries.

In the area of industrial security, we want to ensure that our security provisions will provide for the better protection of classified information. We also want to facilitate international business alliances and thereby preserve and promote the synergy produced by such alliances. We want to facilitate **authorized** exchanges of classified information within multinational companies. We must --- and we have already begun to address the security vulnerabilities produced by new technology and new business practices and structures. At the same time we need to lessen the *unnecessary* administrative burdens on industry. A "one size fits all" approach does not work--- and should not be used in reviewing current or prospective international business alliances. We plan to focus attention on the track records of the countries and non-US companies involved and make prudent judgements accordingly.

As specific examples, we had two recent cases involving Marconi North America, Inc. and Rolls Royce Allison, Inc., both U.S. entities owned by United Kingdom companies. In these cases, it was determined that some of our security procedures did not contribute to enhancing the national security but instead served as a significant impediment to the Department's ability to access the best technologies and capabilities that industry had to offer while impeding interoperability. I therefore authorized relief from those burdensome administrative procedures.

We would like the US Government to conclude binding international agreements with appropriate countries-- on market reciprocity, export control, and industrial security approach to foreign ownership, control and influence. And we plan to modify Special Security Agreements between DoD and US companies owned by entities from these countries to reflect increased levels of trust and congruity of practice between the two nations.

In the area of foreign disclosure we are taking a number of actions to improve effectiveness and efficiency.----- We are expediting the process for foreign disclosure of classified information in a manner that does not harm the quality of the decisions but recognizes the need for prompt action in a rapidly changing world. We have gone to a paperless decision making process as of August 99. We have increased the use of Chairman's decisions to resolve disclosure issues expeditiously. We have issued new guidance directing that all who work on international programs be properly trained in international security and disclosure. We are also further updating the disclosure automation process in ongoing actions and budget planning.

To increase interoperability and to rationalize the development and production of defense equipment with countries that are allied with us, the United States and allied governments must be willing to rely on an integrated industrial base for satisfying their defense equipment needs. Toward this end, we are working within the Administration to develop a legislative proposal on globalization that would reduce barriers to a more integrated industrial base with our allies. For example, the legislative initiative will propose changes to US law that would permit U.S. government and industry to protect foreign government information provided in confidence or classified lower than Confidential without having to resort to the costly measures we use to protect true national security classified information.

While some barriers to our defense market are based in law, others are based on an obsolete paradigm that the United States must be prepared to fight by itself and to be prepared to supply itself during any conflict from within the domestic industrial base. If we expect companies producing equipment in the United States to have access to the defense markets of our allies in the future, we must show a greater willingness to rely on companies located in allied countries for satisfying our defense equipment needs. Likewise, our allies must reciprocate and not discriminate against U.S. equipment when selecting defense systems.

Mr. Chairman, we are actively seeking ideas and input from all interested stakeholders in these processes. I have discussed these issues with a number of Chief Executive Officers in major U.S. defense firms. They firmly support the need for focused change and are encouraging in their support for the measures we have initiated within our own department. We intend to pursue trans-Atlantic discussions with senior industry officials on globalization issues, in the hopes of seeking their views as well on how to make the environment more hospitable for international defense business. Notwithstanding the recent announcement of the formation of the European Aeronautics and Defense Space Company through the merger of Aerospatiale Matra with Daimler Chrysler, there remains latitude for continuing and new trans-Atlantic links. It is my belief that fostering these linkages is essential if we are to undertake and be able to support coalition operations in the future.

Mr. Chairman, members of the Committee, I appreciate your attention and will be happy to answer any of your questions.